

Message Text

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ACTION EA-09

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 3813

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TAGS:EFIN,ECON,NZ

SUBJECT:PRIME MINISTER ON STATE OF THE ECONOMY

REF:THE BUDGET CABLE

1. REFLECTING WIDE SPREAD NATIONAL CONCERN OVER THE COUNTRY'S ECONOMIC HEALTH, PRIME MINISTER MULDOON IN ADDRESSES AT THE WELLINGTON STOCK EXCHANGE JULY 29 AND WELLINGTON SHOW BUILDINGS AUGUST 2, REEMPHASIZED ASPECTS OF THE JULY 27 BUDGET RELATING TO THE STATE OF THE DOMESTIC ECONOMY AND THE EXTERNAL SECTOR. BOTH SPEECHES RECEIVED WIDE PRESS COVERAGE.

2. MULDOON EMPHASIZED THAT THE TERMS OF TRADE HAVE TURNED AGAINST NEW ZEALAND BY SOME 40 PERCENT SINCE 1973. HE POINTED OUT THAT THE BALANCE OF PAYMENTS DEFICITS INCURRED SINCE THEN HAVE BEEN UNSUSTAINABLY HIGH, BUT NOTED THAT THE DEFICIT IS DECLINING; HE REITERATED THAT IT IS HIS GOVERNMENT'S AIM TO RESTORE BALANCE TO THE ECONOMY.

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3. THE PM POINTED OUT THAT WHEN THE MAUI GAS FIELD COMES ON STREAM (PRESENTLY SCHEDULED FOR THE END OF 1978), THE DEFICIT SHOULD BE REDUCED CONSIDERABLY. MAUI WILL PROVIDE SOME 20 PERCENT OF NEW ZEALAND'S ENERGY NEEDS. HE REJECTED ADDITIONAL TRADE BARRIERS OR QRS AS SOLUTIONS TO THE COUNTRY'S PROBLEMS, SAYING THAT AS A TRADING NATION NEW ZEALAND BELIEVES IN FREE

COMPETITIVE TRADE, AND THAT THE COUNTRY NEEDS IMPORTS OF RAW MATERIALS AND PLANT AND MACHINERY TO SUSTAIN THE DOMESTIC ECONOMY AND THE GROWTH OF EXPORTS. INCREASED EXPORTS ARE THE SOLUTION, HE SAID, AND ADDED "WE PROPOSE TO GIVE EVERY INCENTIVE TO EFFICIENT PRODUCERS TO SELL OVERSEAS." THE DOMESTIC ECONOMY MUST "MARK TIME UNTIL WE CAN GET OUR EXTERNAL ACCOUNTS INTO BETTER SHAPE; AND I EMPHASIZE THAT WHAT I AM SPEAKING OF AS A PAUSE MAY BE OF SEVERAL YEARS DURATION."

4. COMMENT: THE PRIME MINISTER STATED EXPLICITLY IN THE AUGUST 2 ADDRESS THAT 1977 AND 1978 WOULD BE DIFFICULT YEARS FOR THE ECONOMY, BUT HELD OUT HOPE THAT 1979 "SHOULD BE A TURNING POINT FOR OUR TRADE." NATIONAL ELECTIONS WILL BE HELD AT THE END OF 1978. IT SOUNDS AS IF THE PRIME MINISTER MAY BE LAYING THE GROUNDWORK FOR A DIFFICULT BATTLE ON THE ISSUE OF THE ECONOMY.

5. APROPOS TO THE ABOVE, A JUST PRODUCED RANDOM SURVEY OF 1,000 NEW ZEALANDERS AGED 15 YEARS AND OVER HAS SHOWED THAT ONLY 22 PERCENT OF THOSE INTERVIEWED BELIEVE THE ECONOMY WILL GET BETTER IN THE NEXT 12 MONTHS, 23 PERCENT BELIEVE IT WILL CONTINUE THE SAME AND 55 PERCENT BELIEVE IT WILL WORSEN. MOREOVER IN THE APRIL-JUNE PERIOD THE PROPORTION OF THOSE SEEING INCREASING DIFFICULTY UNCLASSIFIED

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AHEAD FOR THE ECONOMY HAS RISEN MARKEDLY (34,43,55 PERCENT RESPECTIVELY). FINALLY, THE ECONOMY (INFLATION, COST OF LIVING, OVERSEAS BORROWING, EXPORTS AND BALANCE OF PAYMENTS SITUATIONS) IS STILL REGARDED BY 44.8 PERCENT OF THOSE SURVEYED AS BEING THE MOST URGENT PROBLEM FACING NEW ZEALAND. SELDEN

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